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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Ghana's New Economic Policies

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
April 1972

INTELLIGENCE MEMORANDUM

GHANA'S NEW ECONOMIC POLICIES

Introduction

1. The National Redemption Council (NRC) that replaced Kofi Busia's civilian government by a coup on 13 January 1972 has begun reversing Busia's economic policies. Busia's programs were succeeding in building international sympathy for a bid to obtain foreign debt relief and foreign aid critical for economic growth, but they imposed a harsh austerity that many Ghanaians, particularly the military, found intolerable. The NRC is providing immediate economic relief from the harshness of Busia's austerity, but also is antagonizing Ghana's international creditors and jeopardizing chances for obtaining the badly needed foreign resources for development. This memorandum examines Busia's attempts to solve Ghana's economic problems and assesses Ghana's economic prospects under the NRC.

Discussion

Background

2. Ghana's now chronic economic problems began during the presidency of Kwame Nkrumah, whose grandiose schemes and impractical planning bankrupted an otherwise promising economy. At independence in 1957, Ghana's prospects were bright. The country was producing about one-third of the world's cocoa, and prospects were favorable for increased sales of hardwood and gold and for the production of manganese, bauxite, and diamonds. Ghana's other assets included one-half billion dollars in foreign exchange, a population well educated and skilled by African standards, and a reasonably well developed infrastructure. Nkrumah's

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

industrialization policy, financed primarily by foreign loans and credits on hard terms, developed new industries and infrastructure that generally did not meet Ghana's domestic requirements. Moreover, in many cases new industries required raw materials that had to be imported. Nkrumah's lavish spending, which far exceeded Ghana's financial resources, and his continuous mismanagement of cocoa marketing and production precipitated a major economic crisis. Foreign exchange holdings were depleted, and Ghana was saddled with an enormous foreign debt, a burdensome state sector, and pernicious unemployment and inflation.

3. A military-police junta, the National Liberation Council (NLC), ousted Nkrumah on 24 February 1966. The regime adopted a stiff austerity policy that took a hard line on domestic spending to reduce budget deficits, adopted import controls to improve the balance of payments, and checked the rise of wages and prices. Currency devaluation by 30% in July 1967 further improved the trade balance by reducing imports and stimulating exports. The most onerous immediate burden of medium-term foreign debt (suppliers' credits) was softened by reschedulings with major creditors in 1966 and 1968. Agreements also were reached with creditor countries to supply and coordinate foreign aid, and successive drawings on the International Monetary Fund (IMF) further eased repayment problems.

4. In October 1969 the NLC returned Ghana to civilian rule. The Progress Party won 105 of the 140 seats in the National Assembly, and Kofi Busia was named prime minister. The general public, tired of austerity, looked forward to a new era of rapid economic growth and prosperity.

Busia's Burden

5. Despite the NLC's limited successes, nearly four years of austerity had barely made a dent in the formidable economic problems that faced the new government. Foreign exchange was still scarce, and industry was operating well below capacity because of the foreign exchange constraints that limited its purchases of raw materials, equipment, and spare parts. Moreover, the NLC's attempts to terminate or scale down Nkrumah's public ventures and the slowdown of investment due to lack of funds had increased unemployment. In addition, inflation again showed signs of becoming a problem, as wage restraints were relaxed.

6. Prime Minister Busia developed some well-integrated policies for accelerating economic growth. His agricultural development program concentrated on increasing and diversifying exports, reducing imports of food by increasing food production, and bringing rural and urban living standards into better balance. Private saving was encouraged by raising interest rates on bank deposits, and financing preferences were given to

investments in development projects. Plans for industry involved utilizing idle capacity, emphasing import substitution and the use of domestic raw materials, and creating more employment opportunities. Import liberalization was introduced to increase efficiency in the use of foreign exchange by allowing market forces, rather than controls, to dictate what industrial maintenance goods would be imported. In general, these policies favored especially the farm sector, where he had received strong political support.

Economic Performance Under Busia

7. The Ghanaian economy improved somewhat in 1970 (see Table 1). Spurred by high world cocoa prices and import liberalization that stimulated industrial production, real GDP grew by 4.2%, the largest increase since 1962. The balance of payments improved in 1970 as cocoa export earnings (see Table 2) – which normally account for two-thirds to three-fourths of the total – rose by 32%. This allowed Ghana to make some payments to the IMF and to settle some bilateral payments agreements. However, various incentives to promote other exports proved ineffective, and non-cocoa export receipts fell slightly. Greater imports and the government's refusal to allow wage increases helped limit consumer price rises to 4%. The agriculture sector benefited from a 12% increase in budgeted development expenditures and a larger share of recurrent expenditures. Unemployment problems persisted, however, in spite of Accra's efforts to increase employment. Although government programs to encourage Ghanaians to return to farming and to find jobs in commerce met with some success, they could not absorb the large number of school leavers entering the labor force. A third suppliers' credits rescheduling in mid-1970 assured some debt relief over the next two years, but Ghanaians were disappointed by the creditors' adamant stand against a longer relief period.

8. Even this modest improvement was short lived, however, as imports increased and world cocoa prices dropped sharply (see the chart). New export incentives and additional import surcharges failed to arrest the deterioration of the trade balance, and by mid-1971 the shortage of foreign exchange became critical. Payments for imports, most of which are purchased under 180-day delayed payment credits, fell far into arrears, as did foreign exchange remittances for non-trade payments. Consumer prices rose by some 21% from December 1970 through July 1971 because of surcharge-induced import price increases and higher domestic food prices authorized to increase farmers' incomes. The government resisted wage increases on the grounds that they would feed inflation, and many Ghanaians, particularly the urban dwellers, faced a deterioration in their standard of living. Moreover, a loss in government revenues from declining cocoa export duties more than offset increased revenues from higher import surcharges, and government programs to expand the economy were threatened.

Table 1

Ghana: Selected Economic Statistics

	Unit of Measure	1966	1967	1968	1969	1970	1971
Increase in real gross domestic product (GDP)	Percent	0.1	2.6	0.6	3.6	4.2	N.A.
Index of real GDP	1965 = 100	100	103	103	107	111	N.A.
Per capita real GDP	US $	137	137	135	135	137	N.A.
National consumer price index	1965 = 100	113	104	112	120	125	148 a/
Cocoa exports	Thousand long tons	392	328	329	303	390	410

a. Estimate for July 1971.

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Table 2

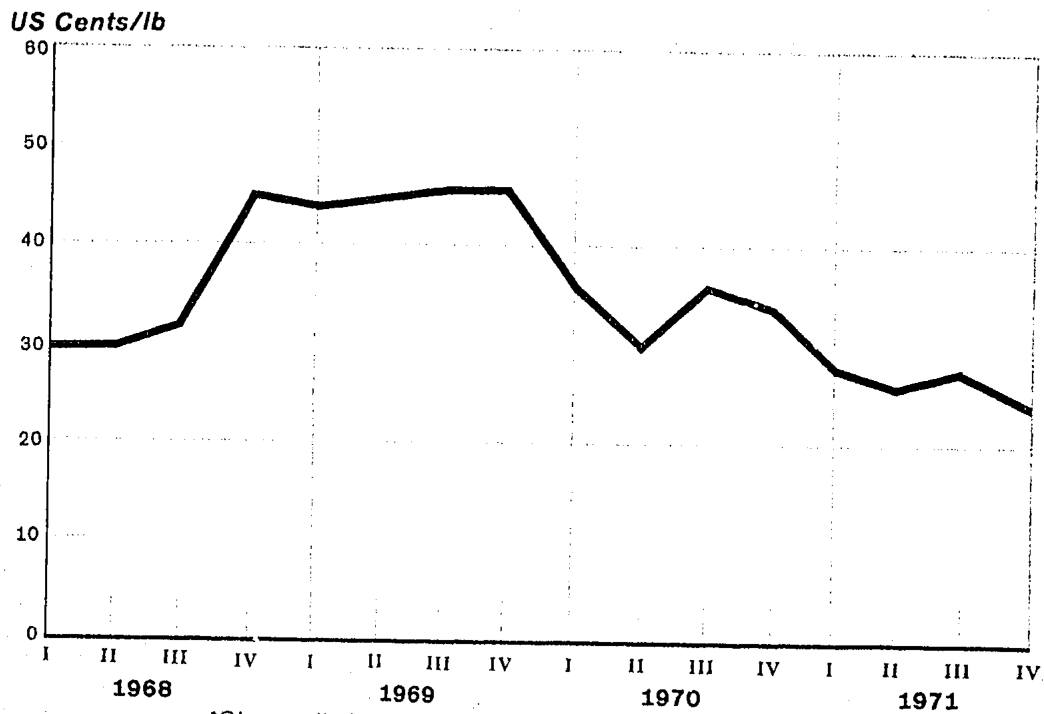
Ghana: Balance of Payments a/

Million US $

	1966-68 Average	1969	1970	1971 b/
Current account	-87	-48	-26	-155
Exports (f.o.b.)	290	349	424	335
Cocoa and cocoa products	196	243	321	227
Other	94	106	103	108
Imports (c.i.f.)	-314	-330	-384	-416
Trade balance	-24	18	40	-80
Net service payments	-63	-66	-66	-75
Capital account	64	55	52	61
Private capital (net)	37	9	18	33
Official capital (net)	27	46	34	28
Long-term loans received	25	55	42	48
Suppliers' credits received	14	4	3	1
Amortization				
Long-term loans	-12	-4	-4	-4
Suppliers' credits	0	-8	-7	-17
Allocation of special drawing rights (SDRs)	--	--	12	10
Private short-term trade credits (net)	5	5	3	-8
Net errors and omissions	6	-42	14	--
Surplus or deficit	*-13*	*-31*	*55*	*-92*

a. Because of rounding, components may not add to the totals shown. The data exclude IMF debt repayments and bilateral trade settlements.
b. Estimated.

WORLD COCOA PRICES*



*Ghana sells its cocoa crop forward; thus the drop in prices during 1970 affected Ghanaian cocoa receipts in 1971.

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Austerity and Devaluation

9. A mid-1971 decision to increase austerity measures in order to deal with balance-of-payments problems and domestic stagnation brought Busia into increasing conflict with important urban groups, which were especially hard hit. The budget message for the fiscal year beginning 1 July 1971 accelerated the shift of resources to the rural sector while further reducing real incomes of urban dwellers and the military. The budget increased expenditures on agricultural development, particularly for food production programs to reduce food imports and to promote export diversification. Cuts were made in military expenditures, and a number of fringe benefits enjoyed by the civil service were eliminated. Moreover, new revenue measures were adopted which further aggravated the population's resentment. Import surcharges were raised and extended, a National Development Levy on individual and corporate incomes was imposed, excise taxes were raised, a tax was imposed on foreign exchange payments for services abroad, and a large increase was made in postal and telegraph rates. The new budgetary measures and the government's continuing refusal to raise the minimum wage further strained relations with organized labor.

The Trades Union Congress, representing all 17 of Ghana's national unions, was dissolved and its assets frozen after it denounced the new budget and threatened a general strike.

10. On 27 December 1971 the government sharply devalued Ghana's currency from US $0.98 to $0.55 per cedi in an effort to encourage exports, reduce imports, and increase farm incomes from export crops. Simultaneously, export incentives and import surcharges were removed, but a ban on certain luxury imports was retained. Devaluation did not directly affect cocoa foreign exchange earnings because the cocoa price in foreign currency is determined on international markets. However, the cedi value of cocoa export earnings increased significantly, and the government proposed an increase of 25% in the price paid to cocoa producers. The stimulus provided other exports by devaluation could be expected to accelerate their growth and diversification. The large magnitude of the devaluation (some 44%) promised to effectively reduce imports to manageable levels, but at the same time the higher cost of imported goods on the Ghanaian market threatened the country with substantial additional inflation. Abandoning its adamant stand on wages, the government offered some relief by promising to raise the minimum wage by 33% and to provide for a graduated increase in the salaries of civil servants. This promise, however, was never implemented.

Prospects at the End of 1971

11. Despite Busia's efforts, the year-end prospects for future development continued to be largely dominated by the foreign exchange constraint. Prospects for Ghana's balance of trade were little improved, because of the likelihood of lower cocoa revenues in 1972, which presumably would be offset only partly by an increase in other exports stimulated by devaluation. To promote economic development and achieve even a modest annual growth of 3%-4%, Ghana required substantial inflows of foreign capital and further debt relief. Prospects for foreign assistance had improved significantly under Busia. The International Bank for Reconstruction and Development (IBRD) was preparing a loan package of $65 million to $70 million, and the IMF was considering a substantial standby arrangement. Furthermore, Ghana's creditors were contemplating new aid commitments and were becoming more amenable to another debt rescheduling as well as more favorable terms. Successfully implemented, Busia's economic programs might have achieved a 5%-6% annual growth in real GDP by the end of the decade. In the short run, however, Ghanaians faced further hardship and, for urban dwellers at least, a lower standard of living.

A Junta Takes Over

12. The Busia government was removed by a military coup on 13 January 1972, and a National Redemption Council, composed of middle-level army officers and one police official, was installed to govern the country. Colonel Ignatius Kuta Acheampong, the NRC's chairman, justified the coup with the assertion that Busia's austerity measures and devaluation had brought Ghana to the brink of economic collapse. While most of the population appears apathetic about the change in government, Acheampong's promise to change many of Busia's policies has won support for the NRC from the civil service, labor, and urban dwellers, as well as from former opposition leaders and most of the press.

13. The new leaders are receiving both official and unofficial economic advice, much of it conflicting. An economic review committee, composed mostly of competent Ghanaian economic experts, including some who served Busia, is examining Ghana's economic problems and making recommendations. Apparently, the committee is accommodating the NRC's rhetoric while attempting to acquaint the NRC with the harsh realities of Ghana's economic problems. Leftist-oriented individuals with access to NRC members have been increasing their influence, and most of the NRC's economic decisions have contained at least partial acceptance of leftist recommendations. Moreover, the NRC gradually is separating itself from older, more conservative economic technicians, and is favoring younger, more radical men not associated with past economic failures.

14. A softening of austerity measures as a means to bolster support has characterized many of the NRC's economic decisions thus far. To dampen the spurt of inflation that followed devaluation, retail prices have been rolled back to pre-devaluation levels for a number of essential imported and domestic consumer goods – milk, baby foods, certain fish, sugar, bar soap, and machetes. The action involves a government subsidy that will total at least $13 million a year. Prices of all other commodities have been allowed to float largely because of the prohibitive cost of further subsidization. Busia's devaluation of the cedi was offset by a revaluation by the NRC from US $0.55 to $0.78, which is intended to ease the pressure on prices. Restoration of automobile maintenance allowances and housing subsidies for civil servants and the military and the abolition of the National Development Levy provide an increase in disposable incomes favoring urban dwellers. No mention, however, has yet been made as to the status of Busia's promised increase in the minimum wage and in the domestic producer price of cocoa.

15. The NRC has not allowed free reign to consumer demands but has chosen to reimpose import controls to govern the allocation of Ghana's

scarce foreign exchange. Virtually all imports are subject to specific licensing. A list of restricted imports limits "to very special circumstances" imports of luxury foods, luxury manufactures, and a wide range of consumer goods. Essential foods are to be imported exclusively by the state, and imports of products that Ghana produces domestically are banned. In addition, the NRC abolished the 180-day deferred payment system applying to most of Ghana's imports and limited the total value of imports for 1972 to between $200 million and $220 million – that is, about half the 1971 level.

A New Foreign Debt Policy

16. On 5 February, Colonel Acheampong announced a unilateral alteration of the policy for servicing Ghana's foreign debts. In principle, all "legitimate" debts will be honored, but on terms that Ghana can meet without seriously crippling its development efforts. The repayment schedule for long-term debt obligations amounting to about $230 million plus interest remains unaffected. Some $286 million in short-term debts – import arrears, 180-day credits, and service payments liabilities – are considered valid claims, but will be paid only in small, steady installments as Ghana's resources permit. Suppliers' credits, involving nearly $300 million of principal plus $72 million in moratorium interest are affected most by the new policy, which disavows the reschedulings of 1966, 1968, and 1970 and allows negotiations only on a bilateral basis in the future.

17. The legitimacy of suppliers' credits from the Nkrumah era has been challenged by the NRC. Many suppliers' credit-financed projects were ill conceived, poorly administrated, and overly expensive because of the payment of sizable bribes. Such suppliers' credits tainted with fraud, corruption, or breach of contract are subject to repudiation, with the burden of proof of their legitimacy borne by the creditor. The NRC has canceled debts owed to four British firms. Total principal and interest of the contracts amounted to some $94 million, of which the companies claim that about $52 million remains to be repaid over the next several years. Other suppliers' credits are under study, and further repudiations are possible. Confident of its justification for the repudiations, and any future ones, the NRC has expressed its willingness to submit disputes to the International Center for the Settlement of Investment Disputes in Washington, D.C., for arbitration.

18. If the NRC succeeds in carrying out its debt policy, the most significant debt relief would come from the decision to repay all valid suppliers' credits on International Development Association (IDA) terms – that is, a 50-year repayment period including a ten-year grace period, no interest, and a 0.75% annual service charge. The grace period would remove the obligation to pay $344 million over the next ten years, of which $35 million would have been due this year (see Table 3). Repayment of the

Table 3

Ghana: Medium- and Long-Term Debt Servicing Payments Required in Multilateral Reschedulings a/

Million US $

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	Total
Suppliers' credits contracted before February 1966											
Totals	31.3	35.5	37.2	38.5	40.7	40.2	39.3	24.4	18.5	21.4	327.0
Principal	20.0	23.9	26.8	29.6	33.4	34.5	35.6	22.5	17.4	19.1	262.8
Interest	11.3	11.6	10.4	8.8	7.3	5.7	3.7	1.9	1.1	2.3	64.1
Suppliers' credits contracted after February 1966											
Totals	4.0	3.7	2.3	2.0	1.7	1.6	1.6	0.2	0.1	0	17.2
Principal	3.4	3.2	1.9	1.6	1.4	1.4	1.4	0.2	0.1	0	14.6
Interest	0.7	0.5	0.4	0.3	0.3	0.2	0.2	0	0	0	2.6
Long-term debt											
Totals	9.7	10.2	11.8	13.3	13.7	14.0	15.2	16.1	16.2	16.9	137.1
Principal	4.3	4.7	6.0	6.7	7.3	8.0	8.9	9.9	10.4	11.2	77.3
Interest	5.4	5.5	5.8	6.6	6.4	6.1	6.3	6.2	5.8	5.6	59.7
Total debt service b/	*45.0*	*49.4*	*51.3*	*53.8*	*56.1*	*55.9*	*56.0*	*40.7*	*34.8*	*38.2*	*481.3*

a. Because of rounding, components may not add to the totals shown.
b. Arrears on payments and other short-term payments in default are excluded. They are called "short-term" debt in this memorandum.

principal less repudiations would be stretched out over the following years, and all previously scheduled interest canceled.

19. Both Ghana and its creditors apparently realize the need to negotiate a compromise. Unless some accommodation is reached, Ghana risks a collapse in its international creditworthinesss that could force the country to rely entirely on exports to finance import requirements, while sources of new investment presumably would dry up. For their part the creditors cannot accept a unilateral alteration of debt servicing because the precedent could adversely affect debt negotiations and arrangements with other countries throughout the world. The question of Ghanaian-favored bilateral or creditor-favored multilateral negotiations currently hampers moves toward a solution. When talks do begin, however, the IBRD or IMF is likely to act as a mediator, and discussions are expected to be in the broad framework of Ghana's economic problems, debt, and aid requirements.

Implications for the Future

20. Ghana's short-term economic prospects are probably worse now than before the coup, as the struggle continues between the constraints imposed by Ghana's stringent balance-of-payments problems and the immediate desire of its people for a more prosperous economy. Busia's harsh but well-integrated economic programs have been disrupted and replaced by ad hoc measures that could generate more problems than they solve. The benefits to Ghanaians from such actions as food subsidization and restoration of civil service and military privileges will dwindle as the NRC's sharp limitations on imports contribute to inflation. Ghana cannot generate significant economic growth without outside help, even with the new debt policy's relief. In addition, the coup-provoked curtailment of foreign investment and new aid threatens Ghana with a return to more austerity measures in the short run.

21. The new debt policy, however, has forced a showdown that, in the long run, could prove more successful than Busia's methods in obtaining a settlement that will take into account the country's economic problems and aid requirements. A strong stimulus for a compromise agreement exists. Ghana wants and needs Western credits, and its creditors want to avoid the adverse impact that Ghana's unilateral debt policy alteration could have on outstanding arrangements between the creditors and other less developed countries. Despite improving prospects for IBRD mediation, agreement will be reached only after months of cautious maneuvering on both sides.